

REPORT OF EXAMINATION
COMMUNITY HEALTH PLAN OF WASHINGTON

Seattle, Washington

As of December 31, 1998



Participating States:
Washington

Community Health Plan of Washington

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Community Health Plan of Washington of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 1998.

PATRICK H. McNAUGHTON
Chief Examiner

Date

Community Health Plan of Washington

TABLE OF CONTENTS

TABLE OF CONTENTS	1
TRANSMITTAL TO COMMISSIONER	2
SCOPE OF EXAMINATION	2
INSTRUCTIONS	3
COMMENTS AND RECOMMENDATIONS	4
HISTORY	5
MANAGEMENT AND CONTROL	5
Membership	5
Board of Directors	5
Board Officers	6
Officers of the Corporation	6
AFFILIATED COMPANIES	7
RESERVES AND OTHER FUNDS	7
CORPORATE RECORDS	8
INTERNAL SECURITY	8
Conflict of Interest	8
Fidelity Bond and Other Insurance	9
TERRITORY AND PLAN OF OPERATIONS	9
GROWTH OF COMPANY	9
REINSURANCE	10
ACCOUNTING RECORDS AND PROCEDURES	11
EDP SYSTEMS AND OPERATIONS	13
SUBSEQUENT EVENTS	13
FINANCIAL STATEMENTS	14
Statement of Assets, Liabilities, Reserves and Other Funds	15
Underwriting and Investment Exhibit	16
Analysis of Examination Changes in Financial Statements	17
Comparative Statement of Assets, Liabilities, Reserves and Other Funds	18
Comparative Underwriting and Investment Exhibit	19
Three Year Reconciliation of Surplus and Other Funds	20
NOTES TO THE FINANCIAL STATEMENTS	21
ACKNOWLEDGMENT	24
AFFIDAVIT	25

Community Health Plan of Washington

Lacey, Washington
July 11, 2000

The Honorable Deborah Senn, Commissioner
Washington Office of Insurance Commissioner
Insurance Building
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioner Senn:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.44.145, an examination was made of the corporate affairs and financial records of

COMMUNITY HEALTH PLAN OF WASHINGTON

of

Seattle, Washington

hereinafter referred to as "CHPW" or the "Company," at the location of its home office, located at 401 Second Avenue South, Suite 400, Seattle, WA 98104-2891. This report is respectfully submitted showing the condition of the Company as of December 31, 1998.

SCOPE OF EXAMINATION

This examination covers the period August 6, 1996 through December 31, 1998 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. Additionally, the examiners reviewed and utilized the work papers prepared by the Company's independent auditors to the extent possible.

Community Health Plan of Washington

INSTRUCTIONS

The examiners reviewed the Company's filed 1998 Annual Statement as part of the statutory examination. The review focused on determining if the Company's Annual Statement was completed in accordance with the Annual Statement Instructions published by the NAIC. The following summarizes the exceptions noted while performing this review. The Company is instructed to correct and comply in future Annual Statement filings, per RCW 48.44.095.

1. Safekeeping Agreement

The Company is instructed to:

- a. Place securities held in custody of the brokerage firm into custody of a bank, trust company or security depository that is regulated by the Securities and Exchange Commission, the Federal Reserve System, and the banking authorities in its state of domicile, as promulgated by NAIC guidelines and WAC 284-07-050.
- b. Revise its custodial agreement to include the required provisions for indemnifying the Company for lost securities as promulgated by NAIC guidelines, RCW 48.05.250 and WAC 284-07-050.

2. Annual Statement

The Company is instructed to:

- a. Complete Annual Statement Schedule E - Part 2 - Special Deposits, reporting any and all securities placed on deposit with the Washington State Office of the Insurance Commissioner or other state insurance regulators, as required by NAIC Annual Statement Instructions.
- b. Report the Required Indemnity balance, as calculated by Form IC-13A-IC - 'Additional Data To Annual Statement', on Page 3, Line 16 - 'Statutory Reserve' of the Annual Statement.

Community Health Plan of Washington

COMMENTS AND RECOMMENDATIONS

The examination developed the following comments and recommendations calculated to prevent non-compliance in the future.

1. Investment Policy

It is recommended the Company amend its Investment Policy to:

- a. Limit the investment in any security or obligation of any one person, institution or municipal corporation, in aggregate, to 4% of admitted assets, as per RCW 48.13.030.
- b. Disallow the purchase of Non-U.S. common stock, as per RCW 48.13.220(1).
- c. Limit the purchase of Non-U.S. bonds only to obligations of the government of the Dominion of Canada, Canadian provinces, Canadian municipalities or obligations of Canadian corporations, as per RCW 48.13.180(2).

2. Disaster Recovery Plan

It is recommended that the Company write, test and implement a Disaster Recovery Plan, that includes appropriate escalation procedures to resolve operational failures in a timely manner, as required by NAIC Guidelines.

3. Business Recovery Plan

It is recommended that the Company prepare a Business Contingency Plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services, and data processing services, in the event of a disruption of normal business activities, as required by NAIC Guidelines.

Community Health Plan of Washington

HISTORY

The Company incorporated July 15, 1996 and commenced business July 16, 1996 under the name of CHP of Washington. The Articles of Incorporation were approved by the Office of Insurance Commissioner (OIC), state of Washington, and filed with the Secretary of State, state of Washington.

On October 23, 1996, the Articles of Incorporation were amended to change the name of the Company to Community Health Plan of Washington.

Community Health Plan of Washington is a HEALTH CARE SERVICE CONTRACTOR domiciled in the state of Washington, specializing in providing its enrollees Healthy Options (HO) coverage through the Washington State Department of Social and Health Services Managed Medicaid Program, Basic Health Plan (BHP) coverage through the Washington State Health Care Authority and coverage for enrollees of the Washington State Public Employees Benefit Board (PEBB). CHPW serves its enrollees through a network of nineteen (19) member health centers and thirteen (13) non-member health providers.

MANAGEMENT AND CONTROL

Membership

There are two (2) classes of membership in the Corporation. Class A and Class B.

- i. Membership in Class A is limited to Community Health Network of Washington (CHNW), a Washington non-profit corporation.
- ii. Membership in Class B is limited to participating health clinics that are members in good standing of CHNW.

Board of Directors

In accordance with the provisions of the Bylaws, as of December 31, 1998, the Board of Directors consists of:

- i. The Chief Executive Officer of the Corporation.
- ii. One Director elected by the Class B members as a whole.
- iii. One Director from each of the nineteen (19) member clinics.

If the Class B members elect a Director from one of the member clinics, then such Class B Director serves as the sole representative of the member clinic and the member clinic is not entitled to a second seat on the Board.

Community Health Plan of Washington

As of December 31, 1998, the Class B members had elected a Director from one of the member clinics. There were no vacant Director positions. The Directors of CHPW were:

Dennis James Braddock	
Ward Van Anderson	
Gregory John Brandenburg	Interim Board Representative
John Francis Browne	
Guillermo Valentin Castaneda	
David Eldor Flentge	Board Treasurer
Benjamin Homero Flores	
Glenn Joseph Gelhar	
Ralph Leonard Hill	Board Region II Representative
Linda Kay Lake	
Barbara Person Malich	
Linda Margaret McVeigh	
Juan Carlos Olivares	Board Vice-Chair
Rogelio NMI Riojas	
Aurelia Marie Rose	Interim Board Representative
Mark Lloyd Secord	Board Region I Representative
Desmond Donal Skubi	Board Chair
Elizabeth Howard Swain	Board Secretary
Thomas James Trompeter	
Dorothy NMI Wong	

Board Officers

The Board Officers shall consist of Board Chair, Board Vice-Chair, Board Secretary, Board Treasurer, and two (2) Regional Representatives, all of whom are elected by the Board and must be a member of the Board. No two (2) offices will be held by the same person. Not more than four (4) officers will be from the same region. Election of Board Officers are held at the annual meeting of the Board. The position of Board Chair will be held by the same person for three (3) terms. All other positions may be held by the same person for two (2) terms.

Officers of the Corporation

Management of CHPW is headed by Dennis James Braddock, Chief Executive Officer. Mr. Braddock has served CHPW since its incorporation in 1996. The Bylaws invest Mr. Braddock with responsibility for the daily operations of the Corporation.

Community Health Plan of Washington

The Officers of the Company, as of December 31, 1998, were:

Dennis James Braddock
Cassandra Ann Undlin

Chief Executive Officer
Chief Financial and Operating Officer

AFFILIATED COMPANIES

Community Health Network of Washington

Community Health Network of Washington (CHNW) is a non-profit, tax-exempt corporation, domiciled in Washington State, that operates as a health care delivery network under the direction of nineteen (19) community health centers. CHNW is the sole Class A member of CHPW and has controlling interest over CHPW.

On January 1, 1997, CHPW became a party to the 'Paymaster and Shared Services Agreement' with CHNW and Community Health Information Services (CHIS). Per the terms of the agreement, CHNW has been appointed to act as agent for the purpose of securing and maintaining reasonable space, supplies, equipment, insurance and all other goods and services. In addition, CHNW will serve as common paymaster for CHPW employees.

Community Health Information Services

Community Health Information Services is an affiliated third-party administrator, domiciled in the state of Washington and controlled by CHNW. CHIS provides claims processing and computer systems services to CHNW and CHPW.

RESERVES AND OTHER FUNDS

Statutory Minimum Net Worth

RCW 48.44.037 requires every health care service contractor to maintain a minimum net worth equal to the greater of:

- i. Three million dollars;
- ii. Two percent of the annual premiums earned on the first one hundred fifty million dollars of premiums and one percent of the annual premiums in excess of one hundred fifty million dollars.

Two percent of the 1998 annual premiums earned of \$97,843,609 equals \$1,956,872.

Community Health Plan of Washington

Therefore, the required minimum net worth is three million dollars. As of the examination date, the audited net worth equaled \$16,119,946, exceeding the required minimum.

Statutory Indemnity Account

Along with its 1998 Annual Statement, CHPW filed Form IC-13A-IC, which calculated the statutory required indemnity balance at \$150,000.

The required indemnity balance of \$150,000 should be reported on Page 3, Line 16 - 'Statutory Reserve' of the Annual Statement. CHPW included the \$150,000 in the Unassigned Funds balance and reported the balance of Line 16 - 'Statutory Reserve' as \$0. (See Instruction No. 2b).

RCW 48.44.030 requires the Company to place in joint custody with OIC a deposit consisting of securities and/or cash equal to the statutorily required indemnity. The Indemnity Account balance of \$1,150,097 was confirmed as of the examination date and exceeded the statutorily required balance.

Community Health Plan of Washington did not have on file with OIC a proper Tri-Party Agreement for the securities held in joint custody. Subsequent to the examination date and during the period of the examination field work, CHPW, the custodian bank and OIC entered into and signed a Depository Agreement for these securities. The signed agreement has been filed with OIC.

CORPORATE RECORDS

The examiners reviewed the corporate records of CHPW for the period under examination. All Board meetings were conducted with a quorum present. The Board members ratified all changes to the Articles of Incorporation and Bylaws.

INTERNAL SECURITY

Conflict of Interest

During the period under examination, the Company did not have a policy in force for the disclosure of conflicts of interest. Nor did the officers, directors and key employees sign and submit a Disclosure of Conflict of Interest Statement annually to disclose any conflicting situations to the Board for review and appropriate action.

Subsequent to the examination date, the Company formally drafted a conflict of interest policy for presentation to and the approval of the Board of Directors. The policy was ratified

Community Health Plan of Washington

by the Board and requires officers, directors and key employees to sign and submit a conflict of interest statement to the Board or appointed committee for review annually.

Fidelity Bond and Other Insurance

Community Health Plan of Washington is a named insured on an extensive portfolio of insurance providing coverage against all catastrophic and other losses. All of the insurers are licensed to do business in the state of Washington. Other named insurers covered by these policies include CHNW and CHIS.

The NAIC suggested minimum amounts of fidelity insurance was calculated for CHPW at a minimum of \$600,000 - \$700,000. As of December 31, 1998, CHPW had fidelity coverage of \$3,000,000.

TERRITORY AND PLAN OF OPERATIONS

Community Health Plan of Washington is authorized to transact business in Washington State. CHPW provides health insurance coverage under a global capitation arrangement with the state of Washington Department of Social and Health Services Medical Assistance Administration (MAA) to enrollees of the MAA Healthy Options Managed Medicaid Program. Through a global capitation arrangement with the state of Washington Health Care Authority (HCA), CHPW also provides health insurance coverage to enrollees of the Washington Basic Health Plan Program and to enrollees of the Public Employees Benefits Board. For all programs, CHPW served 43,616 enrollees as of December 31, 1997 and 84,702 enrollees as of December 31, 1998.

GROWTH OF COMPANY

The following schedules reflect the growth of the Company by year beginning in 1996. The amounts shown were compiled from the Company's filed Annual Statements:

Schedule 1

	Admitted		
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Reserves</u>
1998	\$24,192,183	\$8,072,237	\$16,119,946
1997	25,524,527	15,358,612	10,165,915
1996	8,053,719	52,744	8,000,975

Schedule 2

	Net	
Premiums	Investment	Underwriting

Community Health Plan of Washington

<u>Year</u>	<u>Earned</u>	<u>Gain</u>	<u>Deductions</u>
1998	\$97,843,609	\$(173,672)	\$98,020,823
1997	70,432,176	433,549	69,829,479
1996	0	51,719	49,062

REINSURANCE

Effective January 1, 1997, CHPW entered into a reinsurance agreement with Lincoln National Health & Casualty Insurance Company, an authorized reinsurer in the state of Washington. The reinsurance contract is a Medical Services Provider Excess Loss policy. The original terms of the contract were:

Insured Percentage	90%
Specific Retention Amount	\$75,000
Lifetime Maximum Benefit	1,000,000

Effective January 1, 1998, CHPW revised the terms of the contract:

Insured Percentage	90%
Specific Retention Amount	
Hospital	\$25,000
Physician - Commercial	30,000
Physician - Medicaid	50,000
Lifetime Maximum Benefit	
Hospital	\$1,000,000
Physician	250,000

Insolvency Clause

In the event that CHPW should become insolvent or cease operations, the contract will terminate on the earlier of the date of CHPW's insolvency or cessation of operations, except as provided elsewhere in the policy.

In the event of the insolvency of CHPW, the reinsurer may investigate any claim arising after such insolvency and interpose, at its own expense in the name of CHPW, any defense or defenses which the reinsurer deems available to CHPW. The expense thus paid by the reinsurer shall be chargeable, subject to court approval, against CHPW or its successors as part of the expense of liquidation, to the extent of a proportionate share of the benefit, which may accrue to CHPW solely as a result of the defense undertaken by the reinsurer.

Any debts or credits, matured or unmatured, liquidated or unliquidated, regardless of when or where incurred, in favor of or against either CHPW or the reinsurer with respect to this

Community Health Plan of Washington

contract or any other agreement between the parties, will be offset and only the balance allowed or paid. If either CHPW or the reinsurer is under formal insolvency or bankruptcy proceedings, this right of offset will be subject to the laws of the state exercising jurisdiction over such formal insolvency or bankruptcy proceedings.

The insolvency clause complies with the statutory requirements set forth by RCW 48.12.160(3) by including provisions for a run-off of the reinsurance in force at the date of cancellation.

ACCOUNTING RECORDS AND PROCEDURES

The Company maintains its accounting records on a GAAP modified accrual basis of accounting and adjusts to SAP basis for Annual Statement reporting. The Company is audited annually by the Certified Public Accountants, Ernst & Young, LLP. An unqualified opinion was issued for each year in the examination period.

The Annual Statements filed with the Office of Insurance Commissioner during the examination period were examined and reviewed to verify that they were prepared in a manner consistent with the statutory requirements of Title 48 Revised Code of Washington, Title 284 Washington Administrative Code, the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners. Areas complying with or deviating from these standards and procedures are so noted:

Unpaid Claims

The reserves carried by the Company for these liabilities were \$3,356,549 as of December 31, 1998.

Our review of the unpaid claims reserves relied upon the work papers of the Company's independent actuary and CPA. A comparison of the actual 1998 claims paid in 1999 to the 1998 unpaid claims reserve indicate the reserves for losses on a net basis, are within a reasonable range. Therefore, these reserves are accepted as they appear in the Company's 1998 Annual Statement.

Invested Assets

Community Health Plan of Washington placed its securities in the custody of a brokerage firm. Placing securities in the custody of a brokerage firm does not comply with NAIC guidelines which require custodians to be a bank, trust company or a security depository that

Community Health Plan of Washington

is regulated by the Securities Exchange Commission, the Federal Reserve Board and the banking authorities of the state of domicile. (See Instruction No. 1a).

A review of the securities safekeeping agreement disclosed it does not include the required provisions for indemnifying the Company for lost securities and does not conform to the standards set forth by the NAIC. (See Instruction No. 1b).

Investment Policy

The Company's Investment Policy includes three (3) clauses that could potentially place the Company in violation of certain provisions of Title 48 Revised Code of Washington (RCW).

- i. The policy identifies Fixed Income Securities (Bonds) Of Foreign Governments and Corporations as an allowable asset. RCW 48.13.180(2) limits the purchase of Non-U.S. Bonds only to obligations of the government of the Dominion of Canada, Canadian provinces, Canadian municipalities or obligations of Canadian corporations.
- ii. The policy identifies Stocks of Non-U.S. Companies as an allowable asset. RCW 48.13.220(1) disallows the purchase of Non-U.S. common stock.
- iii. The policy states exposure will be limited to 10% per issuer with exception of U.S. Government obligations or credits collateralized by U.S. Government obligations. RCW 48.13.030 limits the investment in any security or obligation of any one person, institution or municipal corporation, in aggregate, to 4% of admitted assets, except for investments in, or loans upon the security of general obligations of the government of the U.S. or of any state of the U.S. (See Recommendation No. 1).

Schedule E - Part 2 - Special Deposits

Schedule E - Part 2 - 'Special Deposits' of the 1998 Annual Statement indicated the Company had no securities on deposit with the Washington Office of Insurance Commissioner. As of December 31, 1998, CHPW had \$1,150,097 on deposit in its Indemnity Account and should have reported these deposits on Schedule E - Part 2. (See Instruction No. 2a).

EDP SYSTEMS AND OPERATIONS

The Management of CHPW is sufficiently knowledgeable of EDP issues and provides direction and oversight through its Steering Committee. Systems Development, Acquisition and Maintenance Controls were evaluated to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. The Company does

Community Health Plan of Washington

not have an Internal Audit Department due to its small size. However, management has increased its review and oversight of its processes to insure proper internal controls.

The Company does not own an EDP system. CHPW has contracted with its affiliated third-party administrator CHIS to furnish EDP equipment and to operate and maintain its claims processing operations.

Operations and Application Controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the controls exercised to maintain data security. Adequate procedures and controls are in place for network operations, PC's and Year 2000 issues. Initial tests indicate the Company is Year 2000 compliant. Final testing and documenting was scheduled to be completed September 30, 1999.

CHPW does not have a Disaster Recovery Plan or a Business Contingency Plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities. The Disaster Recovery Plan is in DRAFT format, but requires extensive updating and has not been tested. (See Recommendations No. 2 and 3).

SUBSEQUENT EVENTS

Community Health Plan of Washington has been experiencing a rate of growth greater than anticipated. Consequentially, the number of its employees has surpassed the capacity that its office space could functionally support. On July 1, 1999, CHPW entered into a new lease for office space, and on August 1, 1999, relocated its home office to:

1100 Olive Way, Suite 1700
Seattle, WA 98101

The existing lease with Inter Co-Op U.S.A. No. 8 Associates does not include any provisions for early termination of the lease. It is the intention of CHPW to sublease the office space for the remainder of the lease period, which expires June 15, 2001. It is their opinion that office rental rates have increased to a level greater than those stated in the lease and CHPW should be able to make a small profit on the sublease. CHPW is working closely with a broker to locate potential sub-tenants and the list of prospects looks favorable at this time. The worse case scenario would be for CHPW to pay rent on an empty office in addition to the new lease.

FINANCIAL STATEMENTS

Community Health Plan of Washington

The following examination financial statements show the financial condition of Community Health Plan of Washington as of December 31, 1998:

Statement of Assets, Liabilities, Reserves and Other Funds
Underwriting and Investment Exhibit
Analysis of Examination Changes in Financial Statements
Comparative Statement of Assets, Liabilities, Reserves and Other Funds
Comparative Underwriting and Investment Exhibit
Three Year Reconciliation of Surplus and Other Funds

COMMUNITY HEALTH PLAN OF WASHINGTON
Statement of Assets, Liabilities, Reserves and Other Funds
As of December 31, 1998

	<u>Balance Per Company</u>	<u>Adj. No.</u>	<u>Examination Adjustments</u>	<u>Ref.</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>					
Bonds	\$ 6,821,939			Note 2	\$ 6,821,939
Stocks:					
Common stocks	9,454,858			Note 3	9,454,858
Cash	4,989,234			Note 4	4,989,234
Subtotals, cash and invested assets	21,266,031		-		21,266,031
Uncollected premiums	2,296,834				2,296,834
Reinsurance ceded:					
Amounts recoverable from reinsurers	238,023				238,023
Federal income tax recoverable and interest thereon				Note 5	-
Interest and other investment income due and accrued	180,757				180,757
Receivable from parent, subsidiaries and affiliates	453				453
Aggregate write-ins for other than invested assets	210,085				210,085
Total Assets	\$ 24,192,183		\$ -		\$ 24,192,183
<u>LIABILITIES</u>					
Claims unpaid	\$ 2,848,549			Note 8	\$ 2,848,549
Unearned premiums					-
Taxes, licenses and fees due or accrued (excluding federal income taxes)					-
Federal income taxes (excluding deferred taxes)					-
Other expenses due or accrued	111,402				111,402
Aggregate write-ins for other liabilities	5,112,286				5,112,286
Total liabilities	8,072,237		-		8,072,237
<u>RESERVES AND OTHER FUNDS</u>					
Statutory reserve		(1)	\$ 150,000		150,000
Surplus notes	4,492,934				4,492,934
Unassigned funds	11,627,012	(1)	(150,000)		11,477,012
Total reserves and unassigned funds	16,119,946		-		16,119,946
Total Liabilities, Reserves and Other Funds	\$ 24,192,183		\$ -		\$ 24,192,183

COMMUNITY HEALTH PLAN OF WASHINGTON
Underwriting and Investment Exhibit
As of December 31, 1998

	<u>Balance Per Company</u>	<u>Adj. No.</u>	<u>Examination Adjustments</u>	<u>Ref.</u>	<u>Balance Per Examination</u>
<u>UNDERWRITING INCOME</u>					
Premiums earned	\$ 97,843,609				\$ 97,843,609
Claims incurred	86,784,531				86,784,531
Expenses Incurred:					
Claim adjustment	5,392,013				5,392,013
Administrative	5,305,367				5,305,367
Soliciting	538,912				538,912
Total underwriting deductions	98,020,823		-		98,020,823
Net underwriting gain or (loss)	(177,214)		-		(177,214)
<u>INVESTMENT INCOME</u>					
Net investment income earned	(196,009)			Note 9	(196,009)
Net realized capital gains or (losses)	22,337				22,337
Net investment gain or (Loss)	(173,672)		-		(173,672)
<u>OTHER INCOME OR EXPENSE</u>					
Net gain or (loss) from agents' or premium balances charged off	318,590				318,590
Aggregate write-ins for other income or expense	126,539			Note 10	126,539
Net gain or (loss) before federal income taxes	94,243		-		94,243
Federal income taxes incurred	(297,314)				(297,314)
Net Income or (Loss)	\$ 391,557		\$ -		\$ 391,557
<u>RESERVES AND UNASSIGNED FUNDS</u>					
Reserves and unassigned funds December 31, prior year	\$ 10,165,915				\$ 10,165,915
<u>GAINS AND (LOSSES)</u>					
Net gain or (loss)	391,557		\$ -		391,557
Net unrealized capital gains or (losses)	1,339,638				1,339,638
Change in non-admitted assets	(363,354)				(363,354)
Change in surplus notes	(2,007,066)				(2,007,066)
Aggregate write-ins for changes to reserves and unassigned funds:					
Capital Contribution	6,593,256				6,593,256
Change in surplus as regards policyholders for the year	5,954,031		-		5,954,031
Reserves And Unassigned Funds December 31, Current Year	\$ 16,119,946		\$ -		\$ 16,119,946

COMMUNITY HEALTH PLAN OF WASHINGTON
Analysis of Examination Changes in Financial Statements
As of December 31, 1998

	<u>Adj.</u> <u>No.</u>	<u>INCREASE</u> <u>(DECREASE)</u>	
Reserves and unassigned funds, per Company			\$ 16,119,946
<u>ASSETS</u>			
<u>LIABILITIES</u>			
<u>RESERVES AND OTHER FUNDS</u>			
Statutory Reserve	(1)	\$ 150,000	
To report the required indemnity reserve			
Unassigned funds	(1)	(150,000)	
To report the required indemnity reserve			
Net Increase/(Decrease) to Surplus		<hr/>	-
Reserves and unassigned funds, per Examination			<u>\$ 16,119,946</u>

COMMUNITY HEALTH PLAN OF WASHINGTON
Comparative Statement of Assets, Liabilities, Reserves and Other Funds
As of December 31,

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
Bonds	\$ 6,821,939	\$ 4,533,678
Stocks:		
Common stocks	9,454,858	5,291,351
Cash	4,989,234	10,327,590
Subtotals, cash and invested assets	21,266,031	20,152,619
Uncollected premiums	2,296,834	4,510,632
Reinsurance ceded:		
Amounts recoverable from reinsurers	238,023	432,881
Federal income tax recoverable and interest thereon	-	
Interest and other investment income due and accrued	180,757	111,279
Receivable from parent, subsidiaries and affiliates	453	206,275
Aggregate write-ins for other than invested assets	210,085	110,841
Total Assets	\$ 24,192,183	\$ 25,524,527
<u>LIABILITIES</u>		
Claims unpaid	\$ 2,848,549	\$ 2,395,434
Unearned premiums	-	4,621,896
Taxes, licenses and fees due or accrued (excluding federal income taxes)	-	1,414,329
Federal income taxes (excluding deferred taxes)	-	311,566
Other expenses due or accrued	111,402	263,838
Aggregate write-ins for other liabilities	5,112,286	6,351,549
Total liabilities	8,072,237	15,358,612
<u>RESERVES AND OTHER FUNDS</u>		
Statutory reserve	150,000	
Surplus notes	4,492,934	6,500,000
Unassigned funds	11,477,012	3,665,915
Total reserves and unassigned funds	16,119,946	10,165,915
Total Liabilities, Reserves and Other Funds	\$ 24,192,183	\$ 25,524,527

COMMUNITY HEALTH PLAN OF WASHINGTON
Comparative Underwriting and Investment Exhibit
As of December 31,

	<u>1998</u>	<u>1997</u>
<u>UNDERWRITING INCOME</u>		
Premiums earned	\$ 97,843,609	\$ 70,432,176
Claims incurred	86,784,531	62,745,451
Expenses Incurred:		
Claim adjustment	5,392,013	2,933,400
Administrative	5,305,367	3,840,708
Soliciting	538,912	309,920
Total underwriting deductions	<u>98,020,823</u>	<u>69,829,479</u>
Net underwriting gain or (loss)	<u>(177,214)</u>	<u>602,697</u>
<u>INVESTMENT INCOME</u>		
Net investment income earned	(196,009)	452,957
Net realized capital gains or (losses)	22,337	(19,408)
Net investment gain or (Loss)	<u>(173,672)</u>	<u>433,549</u>
<u>OTHER INCOME OR EXPENSE</u>		
Net gain or (loss) from agents' or premium balances charged off	318,590	(616,356)
Aggregate write-ins for other income or expense	126,539	18,404
Net gain or (loss) before federal income taxes	<u>94,243</u>	<u>438,294</u>
Federal income taxes incurred	(297,314)	370,000
Net Income or (Loss)	<u>\$ 391,557</u>	<u>\$ 68,294</u>

COMMUNITY HEALTH PLAN OF WASHINGTON
Three Year Reconciliation of Reserves and Unassigned Funds
As of December 31,

	<u>1998</u>	<u>1997</u>	<u>1996</u>
<u>RESERVES AND UNASSIGNED FUNDS</u>			
Reserves and unassigned funds December 31, prior year	\$ 10,165,915	\$ 8,000,975	\$ -
<u>GAINS AND (LOSSES)</u>			
Net gain or (loss)	391,557	68,294	1,780
Net unrealized capital gains or (losses)	1,339,638	201,692	
Change in non-admitted assets	(363,354)	730	(805)
Change in surplus notes	(2,007,066)		6,500,000
Aggregate write-ins for changes to reserves and unassigned funds:			
Capital Contribution	6,593,256	1,894,224	1,500,000
Change in surplus as regards policyholders for the year	<u>5,954,031</u>	<u>2,164,940</u>	<u>8,000,975</u>
Reserves And Unassigned Funds December 31, Current Year	<u>\$ 16,119,946</u>	<u>\$ 10,165,915</u>	<u>\$ 8,000,975</u>

Community Health Plan of Washington

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation

The financial statements included herein have been prepared in accordance with accounting practices prescribed or permitted by the Washington State Office of Insurance Commissioner. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules.

2. Bonds

Bonds are generally reported at amortized cost using the scientific method, which closely approximates the effective interest method. The statement value, unrealized gains and losses, estimated market values and acquisition cost of bonds held for investment as of December 31, 1998 were as follows:

	Statement Value	Unrealized Gains/ (Losses)	Market Value	Actual Cost
U.S. Government	\$ 300,000	\$ 0	\$ 300,000	\$ 300,000
States, Terr. & Poss.	1,296,092	19,897	1,315,989	1,303,997
Special Revenue	<u>5,225,847</u>	<u>87,175</u>	<u>5,313,022</u>	<u>5,279,931</u>
Total	<u>\$6,821,939</u>	<u>\$107,072</u>	<u>\$6,929,011</u>	<u>\$6,883,928</u>

The maturity distribution of all bonds owned as of December 31, 1998 was as follows:

	Statement Value	Percent of Portfolio
Due in one year or less	\$ 0	0.0%
Due over one year through five years	524,906	7.7%
Due over five years through ten years	2,818,605	41.3%
Due over ten years through twenty years	3,478,428	51.0%
Over twenty years	<u>0</u>	<u>0.0%</u>
Total	<u>\$6,821,939</u>	<u>100.0%</u>

The Securities Valuation Office classification distribution as of December 31, 1998 was as follows:

Community Health Plan of Washington

	Statement <u>Value</u>	Percent of <u>Portfolio</u>
Class 1	\$6,309,833	92.5%
Class 2	<u>512,106</u>	<u>7.5%</u>
Total	<u>\$6,821,939</u>	<u>100.0%</u>

3. Common Stocks

Common stocks are reported at values published by the NAIC, which are generally based on market values. The statement value, unrealized gains and losses, market values and acquisition cost of common stocks held for investment as of December 31, 1998 were as follows:

	Statement <u>Value</u>	Unrealized Gains/ <u>(Losses)</u>	Market <u>Value</u>	Actual <u>Cost</u>
Common Stocks	\$9,454,858	\$1,541,351	\$9,454,858	\$7,913,507

4. Cash And Short-Term Investments

Short-term investments include securities acquired within one (1) year of maturity and are reported at amortized cost, which approximates market value. The statement value of Cash and Short-Term Investments, as of December 31, 1998 were as follows:

Cash	\$ 308,224
Short-Term Investments	<u>4,681,010</u>
Total	<u>\$4,989,234</u>

5. Federal Income Tax Allocation

The Company's Federal Income Tax Return is filed on a stand-alone basis.

6. Non-Admitted Assets

Certain assets designated as "non-admitted" have been excluded from the balance sheet. Non-admitted assets are reflected as direct adjustments against net worth. Total non-admitted assets as of December 31, 1998 consist of the following assets:

Federal Income Net Operating Loss Carry Forwards	\$345,110
Prepaid Expenses	<u>18,319</u>
Total	<u>\$363,429</u>

Community Health Plan of Washington

7. Reinsurance

Accruals and reserves for medical policies, premium revenues and losses incurred are reported net of reinsurance in the financial statements. Net Written Premiums for the year ending December 31, 1998 is as follows:

	Direct <u>Business</u>	Reinsurance <u>Assumed</u>	Reinsurance <u>Ceded</u>	Net Premiums <u>Written</u>
Total	\$95,020,917	\$0	\$1,799,204	\$93,221,713

8. Claims Unpaid

Medical policies had the following reserves for the year ending December 31, 1998:

Reported Claims in Process of Adjustment	\$1,160,278
Estimated Incurred But Unreported	<u>2,196,271</u>
Total Claims Unpaid	<u>\$3,356,549</u>

9. Net Investment Income earned

The following is a summary of net investment income earned for the year ending December 31, 1998:

Bonds	\$317,914
Common stocks	78,170
Cash on hand and on deposit	123,724
Short-term investments	<u>225,182</u>
Gross investment income	744,990
Investment expenses *	<u>(940,999)</u>
Net Investment Income earned	<u>\$(196,009)</u>

* Investment expenses includes \$792,217 for interest on the surplus note paid to CHNW upon approval from the Office of Insurance Commissioner.

10. Aggregate Write-Ins For Miscellaneous Income

Aggregate Write-Ins For Miscellaneous Income as of December 31, 1998 consisted of the following item:

Administrative fee income	\$126,539
Total	<u>\$126,539</u>

Community Health Plan of Washington

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Community Health Plan of Washington during the course of this examination and especially to Julie D. Shoji, CPA; Rod Nelson; Jeff Uyyek.

In addition, acknowledgment is made of the participation in the work and preparation to this report by John R. Jacobson, AFE, Examiner-in-Charge; Peter M. Mendoza, CFE, CIE; Donald C. Straffin, ASA, MAAA, EA; Kevin Thomas; all from the Washington Office of Insurance Commissioner.

Community Health Plan of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF THURSTON }

John R. Jacobson, AFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Community Health Plan of Washington was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

John R. Jacobson, AFE
Examiner-in-charge
State of Washington

Subscribed and sworn to before me this ____ day of _____, 2000.

Notary Public in and for the
State of Washington.
at Lacey.